

PART 6: INTERNAL CONTROL AND AUDITING
CHAPTER 2: INTERNAL CONTROL AND AUDITING PROCEDURES
SECTION 4: RISK ASSESSMENT AND INTERNAL CONTROL LISTS

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6.2.4.2.2 Risk Assessment Checklist

Effective Date: July 1, 1991

AGENCY			
CYCLE		SYSTEM	
PREPARED BY			

This document is prepared as a guideline for identifying areas where an agency should ensure the adequate controls are in place and operating properly. The absence of sound internal controls increases an agency's risk of noncompliance with laws or regulations, of producing unreliable accounting data, loss from fraud, and incurring agency embarrassment.

NOTE - Intermediate ratings (ratings numbers not listed) can be used for shading of ratings.

RISK CATEGORY—GENERAL

EVALUATION FACTOR—Outside Interest.

Interest shown by outside parties such as legislators, news media, citizen groups, the general public or others (including agency personnel) increases an agency's risk related to a system.

RATING SCALE— (Circle Choice)	DEFINITION
1	Outside parties have shown no or very little interest in the area.
3	Outside parties have shown a moderate amount of interest in the area.
5	Outside parties have shown a lot of interest in the area.

EVALUATION FACTOR—Regulatory/Contractual

The existence and applicability of external laws, regulations, contractual or reporting requirements increases the diversity and complexity of system requirements and hence, the opportunity for noncompliance.

RATING SCALE— (Circle Choice)	DEFINITION
0	Subject to no apparent external laws, regulations, contractual or reporting requirements of outside entities.
1	Subject to one outside entities.
3	Subject to two to four outside entities.
5	Subject to five or more outside entities.

EVALUATION FACTOR—Employee Turnover

Employee turnover increases the risk associated with a particular system.

RATING SCALE— (Circle Choice)	DEFINITION
0	No turnover in key management or staff.
1	Limited turnover in key management or staff.
3	Major turnover in key management or staff.
5	Major turnover in key management and staff.

RISK CATEGORY—OTHER REVIEW OR AUDITS

EVALUATION FACTOR—Extent of Audit Coverage.

External and internal auditing of a system's internal accounting controls may decrease an agency's risk associated with a system.

RATING SCALE— (Circle Choice)	DEFINITION
0	Reviewed by both external and internal auditors within the last year.
1	Reviewed by either external or internal auditors within the last year.
3	Not reviewed within the last year.
4	Not reviewed within the last two years.
5	Not reviewed within the last three years.

EVALUATION FACTOR—Results of Prior Reviews

Systems with a history of audit findings and/or informal internal control comments (external or internal audit) normally have a higher level of risk for an agency.

RATING SCALE— (Circle Choice)	DEFINITION
0	No internal control audit findings in the last 4 years.
1	Last internal control audit finding four years ago.
2	Last internal control audit finding or less than three years ago.
3	Informal internal control comment less than two years ago.
4	Internal control audit finding less than two years ago that resulted in neither a

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	compliance failure nor a significant adjustment to an account balance.
5	Internal control audit finding less than two years ago that resulted in either a compliance failure or a significant adjustment to an account balance.

RISK CATEGORY—SPECIFIC FINANCIAL RISK AREAS
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EVALUATION FACTOR—Account Balance Size

Account balance size has an effect on an agency's risk due to materiality considerations. Account balance size should be measured at the fund and general ledger account balance (trial balance) or at the level appropriate for the function or activity being assessed.

RATING SCALE— (Circle Choice)	DEFINITION
1	Under \$1 million.
2	Between \$1 and \$3 million.
3	Between \$3 and \$7 million.
4	Between \$7 and \$15 million.
5	More than \$15 million.

EVALUATION FACTOR—General Fund Expenditures

Evaluation factor: General Fund Expenditures. Processing general fund expenditures increases agency risk due to the budgetary constraints and legislative oversight and concern with the accurate reporting of this data.

RATING SCALE— (Circle Choice)	DEFINITION
0	Processes no general fund expenditures.
1	Processes under \$100,000 in general fund expenditures.
2	Processes between \$100,000 and \$1 million in general fund expenditures.
3	Processes between \$1 and \$3 million in general fund expenditures.
4	Processes between \$3 and \$10 million in general fund expenditures.
5	Processes more than \$10 million in general fund expenditures.

EVALUATION FACTOR—Federal Assistance Programs

Processing federal assistance transactions causes an increase in agency risk due to the stringent administrative and cost principle guidelines that must be met.

RATING SCALE— (Circle Choice)	DEFINITION
0	Processes no federal assistance transactions.
1	Processes under \$100,000 in federal assistance.
2	Processes between \$100,000 and \$500,000 in federal assistance.
3	Processes between \$500,000 and \$1 million in federal assistance.
4	Processes between \$1 and \$4 million in federal assistance.
5	Processes more than \$4 million in federal assistance.

EVALUATION FACTOR—Cash and Checks

Cash and checks are more susceptible to fraud/theft than other assets. Their presence, particularly if a major function of a system, increases an agency's risk.

RATING SCALE— (Circle Choice)	DEFINITION
0	Includes no cash or other highly liquid instruments.
1	Limited opportunity for access to cash and checks or other attractive negotiable items.
3	Some actual handling of cash and checks or other attractive negotiable items, or affords good potential for access to them.
5	The handling of cash and checks or other attractive negotiable instruments is the major part of system/organization.

EVALUATION FACTOR—Access to Inventories

The presence of large inventory balances or specialized inventories such as controlled substances, hazardous wastes, or precious metal increases an agency's risk.

RATING SCALE— (Circle Choice)	DEFINITION
0	No access to inventories.
1	Inventories under \$50,000 that do not include specialized inventories.
3	Inventories between \$50,000 and \$500,000 that do not include specialized inventories.
5	Inventories more than \$500,000 or that include specialized inventories.

EVALUATION FACTOR—Fixed Assets

Fixed assets are an area with a history of accountability problems in state agencies. The presence of large balances fixed assets or highly desirable small and attractive such as firearms or camera equipment (not office equipment) increase an agency's risk.

RATING SCALE— (Circle Choice)	DEFINITION
0	No fixed asset balance or inventoriable highly desirable assets.
1	Fixed asset balances are less than \$200,000 and no inventoriable highly desirable assets.
2	Fixed asset balances between \$200,000 and \$2 million and no inventoriable highly desirable assets.
3	Fixed asset balance between \$2 million and \$15 million or limited inventoriable highly desirable assets.
5	Fixed asset balance over \$15 million or extensive inventoriable highly desirable assets.

RISK CATEGORY—SYSTEM ENVIRONMENT

EVALUATION FACTOR—Automation/System Changes

Generally, an agency's risk will increase with higher level of automation within systems. Risk will also tend to increase with major system changes.

RATING SCALE— (Circle Choice)	DEFINITION
1	Manual with no changes since last evaluation.
2	Manual with minor changes since last evaluation.
3	Automated with minor changes since last evaluation.
5	Automated with major changes since the last evaluation or a new system.

EVALUATION FACTOR—Decentralization

The extent of decentralization has an effect on an agency's internal accounting controls. Generally, decentralized operations are more difficult to control than centralized.

RATING SCALE— (Circle Choice)	DEFINITION
1	One location.
2	Two locations.
3	Three or four locations.
4	Five to ten locations.
5	More than ten locations.

EVALUATION FACTOR—Sensitive Data

The degree that the system is involved in the creation, handling, storage or affords potential access to sensitive data in manual or automated systems resulting from personnel files, medical records, client files, research records, student records or other activities deemed confidential by law, regulation or policy.

RATING SCALE— (Circle Choice)	DEFINITION
0	Does not include the creation or handling of sensitive data.
1	Does not include the creation or handling of sensitive data; however, information is used by outside parties.
3	Includes the handling or creation of sensitive data which is not an integral part of the system's internal accounting controls.
5	Includes the creation or handling of sensitive data which is an integral part of the system's internal accounting controls.